THE 1982

JOINT ECONOMIC REPORT

R E P O R T

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

ON THE

1982 ECONOMIC REPORT OF THE PRESIDENT

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DEMOCRATIC VIEWS ON THE

1982 ECONOMIC REPORT OF THE PRESIDENT

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PART II -- RECOMMENDATIONS AND ANALYSIS

A. End the Recession

Recommendation No. 1: End the Recession

We reject the idea that unemployment is necessary to fight inflation. The Administration's economic strategy is causing vast and unnecessary hardship, with a virtual guarantee that huge future deficits will overwhelm any temporary abatement of inflation once economic recovery is permitted to begin. We believe that durable price stability and a balanced budget can be achieved only in the context of economic growth; therefore, an early end to the recession is imperative.

Recommendation No. 2: Immediate Relief for the Unemployed

Unemployment insurance coverage is inadequate in this recession and must be extended to assure a maximum of 39 weeks of benefits in all 50 States. The effective date of the new provisions regarding Federal loans to State unemployment insurance programs should be delayed by one year, to minimize the need for States to institute cutbacks in benefits in the midst of recession. Congress should also repeal the changes in the Extended Benefits Program that require higher State trigger levels and a new method of calculating trigger unemployment rates.

Eligibility for the Targeted Jobs Tax Credit should be extended to workers unemployed longer than 15 weeks

and to workers whose earnings from previous employment were less than $6,500 a year.

B. Monetary Policy: Recommendations 3-10

Recommendation No. 3: Bring Interest Rates Down and Keep Them Down

The recession of 1981 was caused by unnecessarily tight money and destructively high interest rates. It has wrought massive damage on housing, the automobile industry, small business, agriculture, productive capital investment, and other productive uses of credit. The Congress, Administration, and the Federal Reserve should concert all efforts to repair this damage, which can be done only by bringing about a lasting climate of lower and more stable interest rates.

Recommendation No. 4: Do Not Tighten Money

Monetary policy should return immediately to a path of steady, moderate restraint consistent with lower inflation and economic recovery in 1982. Current Federal Reserve plans appear to call for a continued tightening of money this year. Such a tightening would not be consistent with economic recovery under realistic inflation assumptions, and would instead produce a rapid return of intolerably high interest rates soon after the recession abates. A more accommodating monetary policy than currently planned would help bring interest rates down without risking higher inflation.

Recommendation No. 5: Low Real Interest Rates should be the Immediate Goal

Real interest rates in 1981 were kept high by policy as inflation fell. The Federal Reserve, Administration, and the Congress should agree on the immediate objective of restoring low real interest rates, defined as bringing long-term interest rates back to their historical relationship with current and expected rate of inflation. If inflation continues to decline, policy should bring long-term interest rates down rapidly, to prevent real interest rates from rising.

Recommendation No. 6: Practice Credit Conservation

The Administration and the Federal Reserve should encourage the banking system to develop an effective means to deter destabilizing bursts of bank-financed lending for unproductive purposes such as large corporate take-overs and speculation in commodities, collectibles, and land. Such measures will have the effect of conserving scarce credit resources in times of need for the use of small business, farmers, housing, automobile financing, and productive capital investment.

Recommendation No. 7: End the Interest Rate Wars

In 1981, U.S. high interest rates damaged the world economy and undermined confidence in the economic leadership of the United States. These severe international repercussions must not be allowed to continue. High interest rate competition should be replaced by much closer international coordination of economic policy.

Recommendation No. 8: Improve Federal Reserve Accountability and Policy Coordination

For the past decade, evidence has mounted that there are fundamental flaws in the procedures of monetary formation and oversight. These flaws were only partly corrected by the shift from interest rate to monetary targeting in October 1979; indeed, that change has brought new difficulties to the fore. We call for the Federal Reserve to take a fresh look at the formation of monetary policy and report to the Congress. Such a report should have six specific objectives:

- To improve the quality of information about monetary policy objectives made available to the Congress and the public;

- To improve the coordination of monetary policy, fiscal policy, and other tools of economic policy;

- To provide guidelines for the conduct of monetary policy in times of rapid financial innovation and change in monetary instruments;

- To provide guidelines for the conduct of monetary policy in the face of supply shocks;

- To evaluate the instability in recent years of the demand for money, and recommend changes in monetary policy procedures that may be necessary as a result of this development; and

- To devise ways to guarantee that Federal Reserve policy takes full account of the legitimate interests of industry, agriculture, and commerce, including small business and housing, as stipulated in the Federal Reserve Act.

Recommendation No. 9: Very Short-Run Money Volatility is Not a Problem

We disagree with the view that very short-run volatility of money growth significantly damaged the economy in 1981. We urge that this criticism of the Federal Reserve be dispensed with.

Recommendation No. 10: Reject the Gold Standard

All forms of a return to the gold standard should be rejected by the President, the Administration, and the Congress.

C. Fiscal Policy: Recommendations 11-18

Recommendation No. 11: Promote Economic Recovery Now and a Return to a Balanced Budget

The tax cuts scheduled to go into effect on July 1, 1983, should be deferred, and reviewed in light of the economic situation and the state of the budget next year. Indexation of the personal tax brackets to the Consumer Price Index should be repealed. This clear signal of responsible future tax behavior, with its resulting sharp diminution of the future deficit, will help to lower interest rates now, thus providing needed stimulus and promoting a rapid recovery from the present recession.

Recommendation No. 12: Review Tax Expenditures

Efforts to raise additional revenues in later years should begin with a comprehensive review of tax expenditures.

Recommendation No. 13: Excise Taxes

We oppose regressive increases in Federal excise taxes solely to balance the budget. Such excise tax increases are inflationary and unfair in their incidence. Excise tax increases should be considered only where they serve a compelling public interest.

Recommendation No. 14: No Value-Added Tax

We oppose proposals to institute a national sales tax or value-added tax. Such a tax would fall disproportionately and unfairly on low- and middle-income people, thereby compounding the loss in real income they have suffered in recent years. In addition, introduction of a VAT would add to inflation in the short run.

Recommendation No. 15: Corporate Taxes

The Economic Recovery Tax Act of 1981 provided for accelerated depreciation as we had recommended in our last Report. However, there remains a danger that, as the rate of inflation falls, the new system will become distorted in favor of equipment and machinery and against long-lived structures at low rates of inflation. Should this happen, consideration should be given to measures such as open accounting, which would restore neutrality of the depreciation schedules with respect to types of investment, and eliminate any danger of negative effective tax rates. Provisions providing for

tax leasing should be repealed or sharply overhauled to repair abuses, thus saving up to $5 billion per year.

Recommendation No. 16: Spending

Further consideration of deep reductions in spending for social programs should be deferred until recovery from the current recession is well underway, except that the Administration and Congress should continue aggressive efforts to eliminate waste and mismanagement. The projected increases in defense expenditures are too large and should be scaled back.

D. Fairness: Recommendation 17

Recommendation No. 17: Fairness

The Reagan Administration has turned its back on the principles of fairness and opportunity for all which for 50 years have underpinned our society. This Administration is leading America toward greater unfairness by all its policies -- tax, expenditure, monetary, regulatory. Ever-greater inequities diminish the traditional American value of economic opportunity, reduce the prospects for sustained economic growth in which all share, and threaten national unity. We urge that Congress defend the principles of fairness and equal economic opportunity, in its tax, spending, and regulatory decisions.

E. Structural Reform: Recommendations 18-25

Recommendation No. 18: Basic Industries

We must address the problems of those basic industries, including steel, automobiles, and aircraft, which form the backbone of America's industrial structure. Future policies must stress modernization, reorganization, and adjustment, and must include strong and clear performance criteria. Policies to promote the adjustment of firms should be accompanied by and coordinated with policies promoting the adjustment of workers and communities.

Recommendation No. 19: Promote Catalysts

An American approach to industrial development should emphasize industries which can act as catalysts to economic development and job creation. A catalytic industry may be defined in any of several ways:

- As one with extensive backward and forward linkages in the economy, so that strong advantage in that industry leads to strong advantages in a wide array of final products. The steel industry played this role in past decades for a wide range of fabricated projects. Today, the semiconductor industry is the catalytic center of industries as varied as computers, robots,

telecommunications, and a host of electronic products.

- As one in which the United States has valuable and underexploited resource advantage, such as coal.

- As one in which, due to past imbalanced patterns of development, unique opportunities exist, such as regional high-speed passenger rail.

The role of government in promoting catalysts should vary according to the situation, but, in all cases, the objective is the same: to foster public-private cooperation and a climate in which economic development can take place.

Recommendation No. 20: Maintain Infrastructure

Investment in infrastructure -- roads, bridges, water systems, ports, rails, utilities, and other physical support systems -- must be restored to adequate levels. The ability of State and local governments to meet their responsibilities in this area has been sharply impaired by recent budget cuts. The urgent and overlooked task of restoring our infrastructure should take priority over certain other engineering and development expenditures which the Administration continues to support. Soil erosion is a serious problem and should be treated as an urgent item of rural infrastructure maintenance.

We propose that:

- Remaining funds in the budget for interstate highway construction in urban areas be redirected to maintenance of this system.

- Department of Energy funds be reallocated from exotic and uneconomic projects in the nuclear field, including the fast breeder reactor, and spent instead on energy conservation and accelerated conversion of electric power generation to coal.

- Certain unnecessary projects of the Corps of Engineers and Bureau of Reclamation be canceled and the resources invested instead into upgrading ports and other high priority projects.

- The Department of Agriculture continue on an urgent basis a national evaluation of the problem of soil erosion, and programs to combat this, including measures to promote conservation tillage.

Recommendation No. 21: Restore Housing

For 50 years, homeownership has been a basic objective of national economic and social policy, and the housing industry has been one of our largest employers. Yet, certain supporters of the Administration's program advocate a deliberate strategy to "shift resources" from housing into the military and into capital investment. We reject such a strategy. America's housing industry can come back, if interest rates are brought down and kept down.

The Administration and the Congress should reject proposals to dismantle or to curtail sharply the activities of the Federal National Mortgage Association, Government National Mortgage Association, and Federal Home Loan Mortgage Corporation. Sufficient funding should be provided to these institutions to ensure that they can make an adequate response to the serious needs of homeownership and the housing industry.

The Administration and the Congress should also reject proposals to dismantle further programs which help house low- and moderate-income families.

Recommendation No. 22: Science and Technology

Administration proposals to curtail sharply government support for civilian research and development, and to impose new requirements on scientists to submit to government censorship because of possible national security concerns, threaten to force sharp reductions or shutdowns of government laboratories and reductions in the supply of trained manpower for industry and universities to diminish the level and quality of university-based research, and to lessen the contributions of science and technology to improvements in the growth of productivity. Congress should reject such proposals.

Recommendatin No. 23: Labor

The Committee rejects efforts by the Administration to deemphasize the role of labor in the production process. In the face of massive and growing unemployment, Federal manpower training programs should be maintained at least at reduced Fiscal Year 1982 levels. Greater private participation in the design and conduct of Federal manpower programs is warranted.

Recommendation No. 24: Needed: Skilled Labor

Maintenance of existing youth and unskilled labor training commitments should be accompanied by a comprehensive review of Federal training programs to meet the emerging need for additional adult retraining programs. Youth and adult training programs should emphasize emerging skilled occupations and employers should be encouraged with tax credits to fill labor-short skilled occupations through expanded on-the-job

training. Special attention must be given to the skilled labor needs of small business in the design of new training initiatives.

Recommendation No. 25: Federalism

State and local governments have borne a disproportionate share of Fiscal Year 1982 budget cuts and fiscal distress is widespread. At the same time, promised benefits from the Administration's Economic Recovery Program have not materialized for most cities and States. Additional budget cuts which adversely affect State and local governments should not be made in Fiscal Year 1983.

If and when additional consolidation of categorical grant programs into block grants are considered, they should be introduced gradually, so that States and localities can do the necessary planning without unnecessary disruption. We reject the effort to use block grants as a vehicle to force service cuts.

We support efforts of State and local government officials to begin a "sorting out" of Federal, State, and local responsibilities. However, we believe that, because the design and functions of government are extremely complex and technical, they cannot be recast with the mere stroke of a pen. This process requires careful planning and deliberation.

At the same time, we believe the Federal Government itself must be made to work more efficiently and deliver better results with the taxpayers' dollars. We endorse the Bolling-Roth bill to create a Presidential Commission on More Effective Government.

We urge that the Commission be set up quickly so it can begin to grapple with the complexity of making government work better at all levels.

F. Fighting Inflation: Recommendations 26-30

Recommendation No. 26: A Cooperative Policy to Fight Inflation

In past years, we have consistently called for an incomes policy as a necessary component of a comprehensive strategy against inflation. This year, we repeat that recommendation. An incomes policy should take the form of a national bargain between government and labor, with business participation. Such a bargain must be founded on principles of fair treatment, and its details must be worked out in discussions between those who would be a party to it.

Government should guarantee to labor that workers will not suffer unfairly as a consequence of good-faith cooperation in fighting inflation.

Recommendation No. 27: Promote Energy Security

We must continue to promote energy conservation; therefore, we oppose the reallocation of Energy Department resources from conservation which the Administration has effected. Enhanced development of coal is vital, as discussed elsewhere in this Report. In addition, we should encourage development of improved techniques for enhanced oil and unconventional gas recovery, and continue to fill the Strategic Petroleum Reserve at a satisfactory rate. These measures would work to reduce the sensitivity of U.S. energy supply and price to external shocks.

Recommendation No. 28: Maintain Agricultural Stockpiles

The bumper grain crop of 1981 and large carry-over stocks provide an opportunity for action to expand our program of grain reserves and so ensure stable prices for consumers and stable incomes for farmers in future years. The Department of Agriculture should be directed by the President to develop a proposal for maintaining national grain stockpiles at adequate levels. Sharp fluctuations in our food supplies could be reduced by pursuing a renewed bilateral purchase agreement with the Soviet Union.

Recommendation No. 29: Promote Competition, Not Cartels

The Reagan Administration has retreated from progress toward free competition in several vital transportation sectors.

The Interstate Commerce Commission, under Chairman Reese Taylor, has moved abruptly and dramatically to reinstall cartel-like restrictions on the trucking industry, to the detriment of independent truckers, shippers, and consumers. The President should give explicit guidance to the Interstate Commerce Commission that it return to a policy of free entry, free price-setting, and free competition in the trucking industry, should be consistent with the deregulation purposes of the Motor Carrier Act of 1980, and should take all necessary steps to ensure the installation of a pro-market majority on the Commission.

In the case of airlines, the Administration has also compromised the principles of free competition. International air carriers have been permitted to resume price-fixing negotiations at the International Air Transport Association, and domestic carriers have seen severe new restrictions on free entry in the domestic market for air routes. The Administration should move promptly to reassert the rule of the market in air transport.

In antitrust enforcement, the Administration has adopted a "bigger is beautiful" attitude which has encouraged marriages of the giants, further reducing the scope of competition in the economy, and exacerbating

the diversion of scarce capital resources away from longer-term, productive investment.

Recommendation No. 30: Productivity: The Private Sector Must Lead

The lead role in improving productivity must be assumed by the private sector. American business can and must take the lead in designing more efficient production processes, selecting and purchasing the most efficient equipment, and developing better worker-management relations and quality control.

We also reaffirm our support of the role government must play in promoting a higher rate of productivity growth. This role includes:

- Economic policies which pursue economic growth, reduced inflation, full employment, and lower interest rates;
- Tax incentives for saving, investment, and productivity growth;
- Improved investment in public and private infrastructure;
- Reduced anticompetitive economic regulation and Federal paperwork, cost-effective social regulation, and improved productivity in the Federal Government itself.

G. International Economic Policy: Recommendations 31-34

Recommendation No. 31: Trade

The Administration's policy of tight money and high interest rates has led to an overvalued dollar, which has hurt U.S. exports, helped produce a sharp drop in our trade balance, and added to protectionist pressures.

The United States should press harder for more open international markets by accelerating the reduction in barriers to trade in high technology goods, pushing for international agreements on trade in international services, and reducing existing barriers to foreign direct investment. The United States should resist the temptation to transfer recession-bred unemployment to our trading partners with unfair trade restrictions. The United States should continue to facilitate the growth of U.S. exports, recognizing that the greatest progress in this area will come from a shift in economic policy fundamentals which encourages lower interest rates, worldwide economic growth, and a less overvalued dollar.

Recommendation No. 32: International Financial Institutions

The United States should continue to support the World Bank, the Regional Development Banks, and the International Monetary Fund. In many countries, the Development Banks and the IMF have helped build the capital and human infrastructure which are necessary preconditions for a thriving private sector. Furthermore, the activities of the Bank and the Fund have been consistent with long-term U.S. economic goals. The Administration should take the lead in working for a seventh replenishment of the International Development Association and the eventual expansion of IMF quotas.

Recommendation No. 33: Global Negotiations

At the 1981 Summit in Cancun, the Administration expressed a willingness to move forward with global negotiations on international economic questions. It is time for the Administration to come forward with some specific proposals and a timetable for the negotiations. The Administration should formulate a coherent policy to promote economic growth in the developing world. Its agenda should include measures to encourage trade with the developing world, an emphasis on shifting bilateral and multilateral assistance to the poorer of the development countries, and policies that will facilitate additional private-sector investment in developing economies.

Recommendation No. 34: East-West Trade

The Administration should develop a coherent policy concerning East-West commercial and financial relations. There is an urgent need for the development of a unified approach with our allies in West Europe and Japan.

H. Saving the Statistical System: Recommendations 35-36

Recommendation No. 35: Save the Statistical System

Recent budget cuts threaten the quality, coverage, and continuity of vital economic statistics. In most cases, greater attention to the maintenance of the statistical function could preserve data-gathering capability without significant increases in budget cost of burden on the public. We recommend that:

- Further cuts in the budgets of the Bureau of Labor Statistics and Census Bureau not be made, since these cuts threaten the integrity of core economic data.

- The Administration strengthen the statistical policy coordination function, either by providing it with strong leadership and increased staffing within OMB, or by establishing a separate Office of Statistical Policy outside OMB.

. The Special Analysis of statistical policy in the President's budget, discontinued in 1979, be restored.

Recommendation No. 36: Needed: More and Better Information

The amount and quality of economic, social, industrial, and technological information available today are manifestly inadequate to the needs of modern government, particularly for the formation of sensible economic, military, regulatory, industrial, and productivity policies. Moreover, failure to coordinate the use of existing data and economic models, coupled with political manipulation of key assumptions, has helped undermine the quality and the credibility of basic economic policy decisions, especially with respect to the budget.

PART III -- REVIEW OF THE ADMINISTRATION'S PROGRAM FOR ACHIEVING THE OBJECTIVES OF THE FULL EMPLOYMENT AND BALANCED GROWTH ACT OF 1978 AND REVIEW OF THE CURRENT SERVICES BUDGET

PART IV -- ADDITIONAL VIEWS

AN ACTION PROGRAM FOR 1982

The Joint Economic Committee Democrats present here an action program, consisting of two parts:

- An immediate set of policies for the remaining months of the 97th Congress, designed to get us out of the recession and reduce the deficit;
- A longer term program, work on which should start immediately, aimed at a revitalized America of sustained growth without inflation.

First Things First: Get Us Out of the Recession

This country is in a deep recession -- the worst unemployment since the Depression, widespread business bankruptcy, great strains on our Federal system through the shortchanging of State and local government, large resources of people and goods wasted by stagnation, deficits dangerous and climbing, and the rest of the world badly hurt by our economic mismanagement.

The President and his Administration ignore the recession. But, we, the Democratic Members of the Joint Economic Committee, believe that, in the months ahead, action must be taken to shorten the recession. The 97th Congress and the 1982 Fiscal Year both continue to next October.

Our immediate, short-term, 1982 action program to get us out of the recession follows. It is but a start of the

long-term program that we need and recommend, but it is important to make that start.

It is a sensible program. It is achievable.

Specifically, for 1982, we recommend:

(1) Emergency relief for the unemployed. Over 9.2 million men and women were unemployed in January 1982 -- more than in any year since the Great Depression. Yet, a smaller fraction are covered by unemployment insurance than in any recession since the 1960's, many are exhausting their protection, and in some States budget cutbacks have eliminated extended benefits altogether.

We recommend immediate action to assure that extended unemployment insurance, up to 39 weeks, is available in all 50 States, and to relieve the fiscal pressure on States which must borrow to keep their unemployment insurance benefit programs going.

(2) Bring interest rates down. Interest rates can be brought down. We must:

(a) Stop the Administration and the Federal Reserve from further tightening money.

(b) Get deficits under control by creating deficit-reducing growth in the economy in 1982, and by adjusting future fiscal policy to

produce much lower deficits just as soon as we have emerged from the recession.

(c) Practice credit conservation to minimize loans for commodity speculation and mergers, thus providing more credit, at lower interest rates, for small business, housing, agriculture, and productive capital investment.

Recommendations (b) and (c) both permit inflation and high interest rates to be fought with a less restrictive monetary policy, and hence with lower unemployment.

(3) Change tax policy. Today, in the teeth of a recession, the Administration and Federal Reserve have announced a monetary policy that virtually ensures super-high interest rates for the foreseeable future. Equally perverse, on July 1, 1983, when the Administration proclaims that recovery will be underway, the tax decrease presently slated will go into effect and add to deficits and inflation. The remedy for this perverse fine-tuning is to defer the July 1, 1983, tax cut until we can determine whether it is needed. Indexing of the personal income tax to the Consumer Price Index due to take effect in 1985 should be repealed. Together, these actions should permit lower interest rates and recovery now while

pointing the way to much lower deficits and inflation in the future.

A complete overhaul of our unfair and loophole-ridden tax system is necessary, but it is unrealistic to expect to accomplish much of this in 1982.

(4) Hold the line on spending cuts. With only 73 percent of our economic capacity in use, the Administration favors further drastic expenditure cuts, both for 1982 and thereafter. These excessive cuts will deprive the economy of needed stimulus and the poor, the elderly, and the sick of desperately needed assistance. In addition, by short-changing State and local governments, they force them to turn to increases in regressive taxes which will deepen the recession. Congress should stand fast against the excessive social expenditure reductions which the Administration proposes for 1982 and for Fiscal Year 1983.

For the Future: Sustained Growth Without Inflation

Beyond 1982, the United States must turn to the task of achieving sustained economic growth and high employment without significant inflation. Past efforts to do this have been too narrowly limited to fiscal and monetary policies alone. These will not suffice. For 15 years, Administrations of both Parties have relied on them, with

only one result: more frequent and sharper attacks of inflation and recession. The current Administration, wedded to a rigid economic ideology and to a destructive political agenda, has intensified these problems. This Report provides a blueprint which, if supported by vigorous national leadership and a popular will, could do the job.

Our recommendations are designed to meet the twin priorities of our agenda: to control inflation and to restore sustainable economic growth. Each requires many specific policy actions.

To Control Inflation

Our anti-inflation program is threefold. It does not rely exclusively on high interest rates, depressed demand, and recession, as does the anti-inflation policy of the Administration. It is therefore both a demand-side and a "supply-side" policy.

Monetary policy must be moderate, restrained, and designed to permit sustained economic growth, provided the goal of gradually reduced inflation is achieved.

Fiscal policy must act to close the Federal deficit rapidly as economic growth is restored. An immediate consequence of a more responsible long-range fiscal policy and a more moderate monetary policy should be lower interest rates, which will help immediately by reducing costs.

Finally, on the supply side, incomes policy can contribute to a coordinated reduction of inflation and inflationary expectations. Specific measures to stabilize food and energy supplies can contribute to restoring a general climate of price stability. Measures to promote competition and increase our rate of productivity growth can ensure that victory over inflation is maintained in future years.

To Restore Sustained Growth

Our program to restore sustained economic growth and high employment requires both a sensible macroeconomic policy and far-reaching structural reform.

The macroeconomic climate must foster growth by favoring investment in private, public, and human capital. That means lower and more stable interest rates, achieved by shifting the mix of monetary and fiscal policies, and an end to wasteful diversion of resources by the public sector, wherever found. At the same time, a fair tax and income security system must assure adequate living standards and purchasing power for the broad middle class and for working people, and so maintain the basic social consensus behind economic growth.

Structural reform is necessary in sector after sector throughout the economy, to remove bottlenecks to growth, and to assure the competitiveness of U.S. industry with that of our major industrial rivals. Recommendations in this Report

address all the major components of a structural reform agenda:

- Our basic industries, and the workers and communities dependent on them, must adjust to the new international competitive situation.
- Specific opportunities for growth and revitalization of the U.S. economy, such as the semiconductor industry and the coal industry, must be developed.
- Public infrastructure must be maintained.
- Civilian research and development must be fostered.
- Labor must be trained.

If these efforts are undertaken by a determined Nation, led by a strong President and Congress, we are confident that the challenge of returning to sustained economic growth, high employment, and low inflation can be met and overcome.

REPUBLICAN VIEWS OF THE 1982 JOINT ECONOMIC REPORT: SUMMARY

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The Republican Members of the Joint Economic Committee are optimistic about the prospects for the national economy in 1982. We believe in the fundamental soundness of the Reagan economic program and are confident in its success. We reject calls for a change in direction, for tax increases, or a return to the worn-out Keynesian economic policies which got us into the current economic mess. We recommend continuation and enhancement of the program which is already in place. In particular, we recommend:

1. further efforts to reduce the Federal budget deficit by additional spending reductions, not by tax increases;
2. consideration of additional tax measures aimed at increasing saving, investment, and productivity;
3. redoubled efforts to eliminate and reform excessively burdensome Federal regulations;
4. and, most importantly, a renewed commitment by the Federal Reserve to maintain a steady, consistent, noninflationary monetary policy.

Although the economy is currently in a recession, with unemployment rising and continued high interest rates, we believe it is critical to remember that the Reagan economic program was not enacted as a short-term, countercyclical program, but rather as part of a long-range strategy to reduce inflation and increase productivity, real economic growth, international competitiveness, and real standards of living. It must be remembered that President Reagan inherited an economy which was not only moving into a recession, but one which had been in

secular decline for some years. The President's economic program was designed to alter these trends by increasing the reward for work, saving, and investment, by reducing tax and regulatory barriers to production, by reducing government's command of private sector resources, and by stopping inflation.

We must see progress in reducing the size of the Federal deficit -- in absolute terms as well as share of GNP -- but, we strongly oppose efforts to achieve this goal by reducing the size of the scheduled tax cut. We know of no school of economic thought which argues that taxes ought to be increased during a recession or as a means of increasing economic growth. We believe that the best way to reduce the deficit is to encourage economic growth over the long term, and the recently enacted tax cut is the best means we have for accomplishing that goal.